EXECUTIVE SUMMARY

The Department of the Interior (Department) managers are responsible for appropriate and effective internal control over the programs and operations under their authority within the organization. The Department's Internal Control and Audit Follow-up (ICAF) Handbook is a tool that defines the responsibilities of Department managers, internal control coordinators, and audit liaison officers for internal control. The ICAF Handbook encompasses the Department's actions for appropriate and effective internal control and the activities to follow-up on internal control matters, when needed. Instead of considering internal control to be an isolated management tool, this handbook considers internal control to be an integral—a continuous built-in—component of the Department's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Throughout this Handbook, internal control is emphasized as a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and in doing so, supports performance-based management. Internal control also is the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps program managers achieve desired results through effective stewardship of public resources.

The policies, procedures, and activities listed in this ICAF Handbook are the summation of information and communication among Department managers, internal control coordinators, and audit liaison officers. The Handbook, at a minimum, also takes into consideration internal control criteria established by the Office of Management and Budget (OMB), Government Accountability Office (GAO), Federal Managers' Financial Integrity Act (FMFIA) of 1982, the CFO Council Implementation Guide, and other federal statutes or councils. These criteria are discussed in more detail in latter parts of this handbook.

The Department's policymakers and program managers are continually seeking ways to achieve agencies' missions and program results; in other words, they are seeking to improve accountability. A key factor in helping achieve such outcomes, minimize operational problems, and enhance financial management integrity is to implement appropriate internal control. Effective internal control also helps in managing change to cope with shifting environments and evolving demands and priorities. As financial operations and programs change and the Department strives to improve operational processes and implement new technological developments, management must continually assure that its internal control is effective and updated when necessary.

The Department believes that correction of identified material weaknesses and implementation of audit recommendations is essential to improving the efficiency and effectiveness of its programs and operations as well as achieving accountability and integrity. The Assistant Secretary – Policy, Management and Budget is the Department's Chief Financial Officer and the Department's Audit Follow-up Official, is the chair of the Department's Senior Management Council (ICAF Council), and is the leader of the Department's Senior Assessment Team. The Audit Follow-up Official is responsible for ensuring that systems and procedures are in place to respond to, resolve, and track the Department's progress in implementing recommendations contained in audit reports and that actions are taken to correct identified program and administrative material weaknesses. The Assistant Secretary has delegated day-to-day responsibility for the ICAF Programs to the Office of Financial Management.

The staff of the Management Accountability and Control Focus Group within the Office of Financial Management carries out the daily responsibilities of the ICAF Programs. Department managers, internal control coordinators, and audit liaisons are to contact Focus Group staff for assistance as they carry out the requirements of the ICAF Programs.

The Department of the Interior's ICAF Handbook consists of the six sections listed below.

1. **Internal Control Program** – The section includes a historical perspective of the significance of internal control in the federal government and the roles and responsibilities of Department officials for the six major components of the organization's Internal Control Program.

2. **Financial Internal Controls** – This element focuses on adhering to the revised OMB Circular A-123, Management's Responsibility for Internal Control, and lists the Department's guidelines for evaluating internal control over financial reporting including the criteria for determining materiality thresholds for the annual statement of assurance on internal control over financial reporting as of June 30 for the fiscal year.

3. **Financial Systems/Information Technology** – This component provides guidance to the Department's information technology and information security community for conducting the necessary internal control reviews of financial management and information systems.

4. **Audit Follow-up Program** – The module places emphasis on the timely implementation of audit recommendations and resolution of the Department's disagreements with either GAO or Office of Inspector General (OIG) auditors on audit findings and corrective actions.

5. **OIG Audit Reports** – The section discusses the Department's responsibilities associated with audit follow-up in connection with OIG audit reports. In its

partnership with the OIG, the Department assists the OIG in the preparation of its semi-annual reports on internal control weaknesses by providing updated information on the status of audit findings that require tracking and resolution.

6. **GAO Audit Reports** – The section discusses the Department's responsibilities associated with audit follow-up in connection with GAO audit reports. The Department's responsibilities include having the appropriate senior management officials present at exit conferences with GAO and that it responds in writing to all draft GAO recommendations in a timely manner.

Throughout this Handbook, the Department emphasizes that risk assessments—the identification and analysis of relevant risks associated with achieving objectives and forming a basis for determining how risks should be managed—of internal control are instrumental. The Department has decided that Internal Control Reviews (ICR) are to be done on all controls or program areas considered to be of high risk. As discussed later in this Handbook, since an ICR requires a description of all event cycles and analysis of control objectives and techniques, testing is normally very detailed and extensive. When the level of risk for controls or program areas is considered to be low, the Department has decided that an Alternative Internal Control Review (AICR) is appropriate because it is generally less paper intensive and more cost effective and efficient. For program areas considered to be medium risk, it is management's discretion as to whether an ICR or AICR is more appropriate; the decision to use an ICR or AICR should be based on the visibility of the program, the dollar impact of the program on outside entities (public or governmental), etc.

In addressing the Department's need for integrated internal control assessments that synchronize all internal control-related activities, we appreciate the efforts of the Department's officials who contributed to developing this working draft Handbook.